



Committee and Date

Pensions Committee

29 November 2012

10am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 13 SEPTEMBER 2012

10.00am – 12.25pm

Responsible Officer Michelle Evans

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Present: Mr T H Biggins, Mrs A Chebsey, Mr A Davies, Mr I Martin (Substitute for Mr J Fox), Mr B McClements, Mr M G Pate (Vice-Chairman) and Mrs J Smith (substitute for Mr R Pugh).

In the absence of the Chairman, the Vice-Chairman took the chair.

1. Apologies for Absence and Substitutions

- 1.1 Apologies were received from Mr J Fox, Mr R Pugh, Mr M Smith and Mr C Tranter.
- 1.2 Mr I Martin substituted for Mr J Fox and Mrs J Smith substituted for Mr R Pugh.

2. Disclosable Pecuniary Interests

- 2.1 Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3. Minutes

3.1 Paragraph 10.2

The date of the Annual Meeting was 6 November 2012, not 8 November as stated in the Minutes.

- 3.2 **RESOLVED:** that the non-exempt minutes of the meeting held on 2 July 2012 be approved and signed by the Chairman as a correct record, subject to the above.

4. Public Questions

- 4.1 There were no public questions.

5. F & C Management Limited (Emerging Market Equities)

- 5.1 Mr Jeff Chowdhry, Mr Sam Mahtani and Mr Ian Biscoe gave a presentation (copy attached to the signed Minutes) on Emerging Market Equities which covered performance of the fund, process enhancements and the outlook for emerging markets.

- 5.2 Mr Chowdhry reported on performance of the fund which had been valued at £52.73 million on 30 June 2011, however, following a very difficult period for emerging market equities, the fund had fallen by 14.2% to be valued at £44.98 million on 30 June 2012. In response to a query, Mr Chowdhry explained that China was expected to continue growing and he felt that it would become one of the biggest economies in 15-20 years time.
- 5.3 Mr Chowdhry drew Members' attention to the overview of the portfolio for the year to June 2012 and reported that the process enhancements introduced by F & C had started to turn performance around. Mr Chowdhry highlighted what had worked well and what had not and explained that the main negative had been the decision to increase cyclical bias in the portfolio in mid 2011.
- 5.4 F & C had felt that more attention should have been paid to high quality companies that were attractively valued and so every company now had a quality 'Q' score based on five key factors. Mr Mahtani gave an example of what they were looking for to gain an overall 'Q' score.
- 5.5 A query was raised as to why four banks had only been in the portfolio for one quarter in 2012. The following response was received in relation to the Bank of Baroda after the meeting:

'It was correctly pointed out that we bought Bank of Baroda in India in Q1 2012 and sold it in Q2. We identified the company as an investment opportunity in your fund and started building up a position in Q1 2012.'

In India, for several securities, there is an overall limit that foreign investors can hold in each company, and in this case it is 20% for Bank of Baroda. We were unable to build the position we required as there were limited foreign sellers of the security in the stock market. As you will see from your portfolio we were only able to build up a small position of 30bps in the overall portfolio, which is below our minimum bet size of at least 50bps. After spending a month trying to build a position we decided the best course of action was to exit the small position that we had, which we did at a small profit to the fund.'

- 5.6 Mr Chowdhry and Mr Mahtani answered a number of queries from Members in relation to the portfolio. In conclusion, F & C were very confident that emerging markets would deliver positive returns going forward.

6. PIMCO Europe Limited (Global Aggregate Bonds)

- 6.1 Mr Ben Edwards and Mr Carlos Vilares gave a presentation (copy attached to the signed minutes) on Global Aggregate Bonds which covered an overview of what had happened in the portfolio, performance of the fund, outlook and portfolio strategy for 2012 followed by an update on PIMCO.
- 6.2 Mr Edwards reported that the portfolio had done well over the last 12 months and had produced strong returns. Mr Edwards then discussed what had happened in bond markets over the last 12 months including interest rates falling on core government bonds as demand exceeded supply. In response to a query, Mr Edwards felt that it made sense to allocate more to corporate bonds and less to government bonds as government bond yields were currently at historically low levels.

- 6.3 Turning to performance, Mr Edwards reported that on the whole returns had been positive for the first two quarters of 2012. Performance after fees had been 8.4% which was ahead of the benchmark of 4.7%. He drew attention to the impact of active decisions made by PIMCO and how they had added value to the portfolio. The greatest returns had been seen in sector strategies.
- 6.4 Mr Edwards explained that although there had not been as much austerity in the US as in Europe, a change in fiscal policy could cause a drag on US GDP of approximately 1.5%, which would slow economic growth. However, it was felt that the portfolio was protected against fiscal tightening in the US.
- 6.5 Mr Vilares drew attention to the outlook for the short and longer term and what this meant for the portfolio. It was felt that the three main themes over the next three to five years would be contracting credit, continued deleveraging and tighter regulation which would all lead to slower growth. Emerging markets were expected to show higher GDP growth than developed markets.
- 6.6 There was uncertainty in the short term as political decision making impacted on markets together with euro zone issues which would persist in the medium term.

7. Baillie Gifford & Co (Japanese Equities)

- 7.1 Anthony Dickson and Matthew Brett gave a presentation (copy attached to the signed Minutes) on Japanese Equities which covered current performance together with the future outlook.
- 7.2 Mr Dickson reported that there had been no change to the philosophy of the firm. A new CEO had been appointed which had been planned for well in advance. There had been no change to their Japanese team of fund managers but they had recently recruited 10 graduates and currently had a team of 36 investment professionals.
- 7.3 Mr Dickson informed the meeting that Ballie Gifford had £76 billion of funds under management. Looking at the investment environment, in the near term the Japanese economy was expected to outperform developed economies following a period of reconstruction and a marked recovery in consumer spending. In the long term, secular growth opportunities still existed.
- 7.4 Performance to 30 June 2012 had been disappointing at -2.3% (net) however this was slightly ahead of target and over three years was well ahead of target. Mr Brett drew attention to the portfolio holdings together with the main contributors and detractors.
- 7.5 Overall, the Japanese economy was at a different point in its cycle to other markets with the trend being for retail sales to be picking up. In response to a query Mr Brett explained that the retail market in Japan was expanding so Ballie Gifford aimed to pick stocks in this sector in order to gain better returns. In conclusion, Mr Dickson stated that the market had performed well in the past and would be a growth area over time.

8. Martin Currie Investment Management (Pacific Ex Japan Equities)

- 8.1 Mr Keith Burdon and Andrew Graham gave a presentation (copy attached to the signed Minutes) on Pacific (Excluding Japan) Equities which looked at Martin Currie's philosophy and process, performance review and portfolio characteristics together with the outlook for the market and the key investment themes. Mr Burdon informed Members that Martin Currie managed a £45 million portfolio for the Shropshire County Pension Fund.
- 8.2 He drew attention to a conflict of interest issue that had been discovered within Martin Currie relating to a private equity investment. Martin Currie had self reported the issue which had been investigated and had led to disciplinary action. They had since ceased to invest in new private equity. Mr Burdon explained that significant strengthening of governance had been undertaken so no further action had been required. He reported that the incident had not impacted on their Asian team or on the Shropshire County Pension Fund.
- 8.3 In response to a query, Mr Burdon stated that their five year plan was under review and that £30 million of capital had been raised to reinvest. He explained that Martin Currie had opened a small office in Singapore which consisted of five officers and two dealers.
- 8.4 Mr Graham discussed Martin Currie's investment philosophy and investment process. It was reported that performance to 30 June 2012 had been slightly behind the benchmark. Mr Graham then drew attention to the contributors and detractors, together with performance by country and sector. In response to a query, Mr Graham explained why Martin Currie had invested in HSBC.
- 8.5 In conclusion, the outlook for Asia was positive with great opportunities for trade to grow dramatically. Decent returns had been delivered but it was hoped to do better in the future.

9. Audit Commission Annual Governance Report 2011/12

- 9.1 The Committee received the report of the Audit Commission (copy attached to the signed Minutes) which summarised the findings from the 2011/12 audit. The District Auditor was proposing to issue an unqualified opinion on the Pension Fund accounts. He confirmed that no material errors or weaknesses had been identified.
- 9.2 The District Auditor drew attention to the key audit risks and findings. No internal control weaknesses were identified. In response to a query the District Auditor explained how assurance was gained that the systems of internal control were adequate and effective.
- 9.3 The District Auditor gave a verbal update on Related Party Transactions. There was still some uncertainty around the level of disclosure however this would be looked at next year as part of the 2012/13 audit.
- 9.4 **RESOLVED:** To note the content of the report and to approve the letter of representation, set out in Appendix 2, on behalf of the Pension Fund.

10. Internal Audit Outturn Report for Shropshire County Pension Fund 2011/12

- 10.1 The Committee receive the report of the Audit Service Manager (copy attached to the signed Minutes) which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2012.
- 10.2 The Group Auditor reported that the assurance level had been rated as good, the highest possible rating. She then drew attention to the work undertaken including a summary of the recommendations.
- 10.3 **RESOLVED:**
- A. To note performance against the Audit Plan for the year ended 31 March 2012
 - B. To note the Audit Service Manager's positive year end opinion on the Fund's internal control environment for 2011/12 on the basis of the work undertaken and management responses received.

11. Pension Fund Annual Accounts 2011/12

- 11.1 The Committee received the report of the Corporate Head of Finance & Commerce and Scheme Administrator (copy attached to the signed Minutes) which provided Members with the Shropshire County Pension Fund Annual Report 2011/12 and an update on the annual audit.
- 11.2 The Corporate Head of Finance & Commerce and Scheme Administrator informed the Committee that the Audit Commission had given an unqualified opinion on the accounts and no recommendations had been made.
- 11.3 In the year to the end of March 2012 the fund had increased in value by £49 million and total scheme membership had increased by 3.9%.
- 11.4 In response to a query, it was confirmed that the employer contribution rate changed every three years following the actuarial valuation.
- 11.5 **RESOLVED:** To approve the Pension Fund Annual Report 2011/12.

12. Pensions Administration Monitoring

- 12.1 The Committee received the report of the Pension Service Manager (copy attached to the signed Minutes) which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.
- 12.2 The Pension Service Manager drew attention to the impact of Auto-Enrolment on the Pensions Administration Team as it introduced new rules around data collection for those employees who opt out of the Pension Scheme.
- 12.3 The Pension Service Manager requested Members to let her know which Annual Meeting they would be attending.
- 12.4 The Committee were requested to approve two additional Independent Registered Medical Practitioners for Regulations 20 and 31 of the Benefits Regulations.

12.5 **RESOLVED:** To accept the position as set out in the report and to approve the two additional Independent Registered Medical Practitioners.

13. Corporate Governance Monitoring

13.1 The Committee received the report of the Treasury & Pensions Service Manager (copy attached to the signed Minutes) which informed Members of corporate governance and socially responsible investment issues arising in the quarter to 31 June 2012.

13.2 **RESOLVED:** To accept the position as set out in the report, the PIRC Quarterly Report (Appendix A) and the F&C Responsible Engagement Overlay Viewpoint Report (Appendix B).

14. Exclusion of the Press and Public

14.1 It was **RESOLVED** that under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda items 15 - 17 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the category specified against them.

15. Minutes (Exempted by category 3)

15.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 2 July 2012 be approved and signed by the Chairman as a correct record.

16. Investment Monitoring - Quarter to 30 June 2012 (Exempted by Category 3)

16.1 The Committee received the exempt report of the Treasury & Pensions Service Manager.

17. New Admission Bodies and Scheme Employers (Exempted by Category 3)

17.1 The Committee received the exempt report of the Pension Service Manager.

Signed.....(Chairman)

Date.....29 November 2012.....